



Obama Administration Announces Clean Power Plan

On August 3, 2015, the Obama Administration and EPA announced the Clean Power Plan. This rule establishes state-specific goals for reducing emissions of carbon dioxide (CO₂) from electric generation facilities and guidelines for the development, submittal, and implementation of state plans to achieve these goals. The Clean Power Plan is intended to achieve a 32 percent reduction in CO₂ emissions from the utility power sector from 2005 levels by 2030.¹

Introduction

President Obama recently stated, “power plants are the single biggest source of harmful carbon pollution that contributes to climate change.”² Power plants are now subject to new regulations aimed at reducing emissions by 32 percent of 2005 levels by 2030. The single largest source (31%) of greenhouse gas emissions in the U.S. is from electricity generation, and 82% of the emissions are CO₂. So although there are existing emissions regulations for certain toxins, such as soot and methane, this is the first time the largest emission from the most polluting sector is being regulated.³

State Flexibility

Although limits on many pollutants were already in effect, power plants faced no limitations on their carbon pollution, making the Clean Power Plan the first federally-mandated standard for carbon emission levels. The framework of the plan is intended to be flexible in nature, allowing each state to create and execute an individualized protocol for lowering emissions. Every state must submit its plan by 2018 and have material reductions in greenhouse gas emissions by 2022.

The Environmental Protection Agency (“EPA”) has partnerships with states, tribes, and U.S. territories under section 111(d) of The Clean Air Act. As a result, the EPA sets certain target levels for fossil fuel-fired electric generating units, and then each state develops its own execution plan. States have two main options for creating their plans:

- Emission standards plan: ensures that each power plant within the state achieves the target emission performance rates

- State measures plan: requires each power plant to fulfill a various state measures, which may include certain renewable energy standards⁴

The EPA acknowledges that each state has different circumstances, and the closure of certain coal plants may have detrimental effects on the public’s access to electricity. As a result, the EPA developed a “reliability safety valve,” providing states with a “temporary waiver” to ensure grid reliability.

The plan also encourages states to work with other states. Each state can mandate a cap on carbon emissions and then sell its remaining credits (or allowances). Specifically, a cap-and-trade system creates a market where entities can purchase credits (or allowances) for emitting carbon pollution, allowing them to have a higher emissions limit. By financially penalizing firms for polluting, there is greater incentive to innovate and switch to cleaner energy sources.

The War on Coal?

The Clean Power Plan offers potential support for many parts of the energy sector, from energy efficiency to renewables to nuclear. The one notable exception is coal, which almost all market participants expect will be adversely affected. Despite the flexibility granted to states, the Clean Power Plan has already caused a handful of states to take immediate legal action, as the draft has been in the making for two years. States that greatly rely on coal for electricity, such as West Virginia and Wyoming, are campaigning against the regulations. Opponents claim the new rules will increase the price of electricity, cause higher unemployment, and jeopardize the reliability of the power grid.



The Obama administration, however, claims the plan will protect public health, reduce energy bills, and create American jobs.⁵ It estimates that the plan will ultimately save the U.S. \$45 billion a year from reduced energy consumption and lower healthcare costs related to air-pollution illnesses. The EPA believes the initiative will result in \$85 of annual savings on an average American's utility bill by 2030.⁶ Furthermore, the Clean Power Plan encourages the use of alternative energy. By 2030, renewable resources must make up at least 28 percent of the country's electricity, up from 13 percent currently.⁷ Transforming existing power plants into well-suited sites for solar, wind, and natural gas power will cost billions of dollars, causing some people to refer to the initiative as the "war on coal."⁸

Conclusion

The power industry has changed in recent years and would continue to change in the absence of the Clean Power Plan, but this new federal mandate will likely have far-reaching implications. Even the expectation today of these future changes has an impact on the values of companies throughout the energy industry.

Appraisal Economics has over 25 years of experience appraising multiple power plants throughout the United States and abroad. Today, re-powering coal-fired power plants with either natural gas or biomass is getting particular attention for appraisal expertise. Also, output from wind, solar and other alternative energy projects is growing faster than conventional plants and requires special knowledge that few firms have.

If you are looking for an appraisal firm that has a deep understanding of your industry and need a valuation for accounting, tax, transaction, or litigation purposes, please give us a call.

Disclaimer: this article has content that is general and informational in nature. This document is not intended to be accounting, tax, legal, or investment advice. Data from third parties is believed to be reliable, but no assurance is made as to the accuracy.

Endnotes:

1. <http://www.epa.gov/airquality/cpp/cpp-final-rule.pdf>
2. <http://www.cnn.com/2015/08/02/politics/obama-climate-change-plan/>
3. <http://www.forbes.com/sites/jamesconca/2015/08/04/only-one-loser-in-obamas-clean-power-plan/>
4. <http://epa.gov/airquality/cpp/fs-cpp-preview.pdf>
5. <https://www.whitehouse.gov/the-press-office/2015/08/03/fact-sheet-president-obama-announce-historic-carbon-pollution-standards>
6. <http://www.usnews.com/news/articles/2015/08/03/epa-clean-power-plan-calls-for-bigger-greenhouse-gas-reductions>
7. <http://www.eia.gov/tools/faqs/faq.cfm?id=92&t=4>
8. <http://www.wsj.com/articles/obamas-new-climate-change-regulations-to-alter-challenge-industry-1438560433>